Corrected Transcript

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Adobe Inc. (ADBE)

Q3 2026 Earnings Call

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CORPORATE PARTICIPANTS

Doug Clark
Vice President-Investor Relations, Adobe Inc.

Shantanu Narayen
Chair & Chief Executive Officer, Adobe Inc.

Anil Chakravarthy
President-Customer Experience Orchestration Business, Adobe Inc.

Steve Day
Interim Chief Financial Officer & Senior Vice President, Finance, Technology, Security and Operations, Adobe Inc.

OTHER PARTICIPANTS

Matthew Swanson
Analyst, RBC Capital Markets LLC

Saket Kalia
Analyst, Barclays Capital, Inc.

Jay Vleeschhouwer
Analyst, Griffin Securities, Inc.

Brian Hyska
Analyst, JPMorgan Securities LLC

Brad Zelnick
Analyst, Deutsche Bank Securities, Inc.

Ivan Radojicic
Analyst, Wolfe Research LLC

Vinod Srinivasaraghavan
Analyst, Evercore Group LLC

Billy Fitzsimmons
Analyst, Piper Sandler & Co.

Brent Thill
Analyst, Jefferies LLC

Andrew Girard
Analyst, Citigroup Global Markets, Inc. (Broker)

Michael Turrin
Analyst, Wells Fargo Securities LLC

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MANAGEMENT DISCUSSION SECTION

Operator: Good day, and welcome to the Q3 FY 2026 Adobe Earnings Conference Call. Today's conference is being recorded. At this time, I'd like to turn the conference over to Doug Clark, Vice President of Investor Relations. Please go ahead.

Doug Clark

Vice President-Investor Relations, Adobe Inc.

Good afternoon and thank you for joining us. With me on the call today are Shantanu Narayen, Adobe's Chair and CEO; Anil Chakravarthy, President of Customer Experience Orchestration; and Steve Day, Senior Vice President and Interim CFO.

On this call, which is being recorded, we will discuss Adobe's third quarter fiscal year 2026 financial results. You can find our press release, as well as PDFs of our prepared remarks and financial results, on Adobe's Investor Relations website.

The information discussed on this call, including our financial targets and product plans, is as of today, September 10, and contains forward-looking statements that involve risk, uncertainty and assumptions. Actual results may differ materially from those set forth in these statements. For more information on those risks, please review today's earnings release and Adobe's SEC filings.

On this call, we will discuss GAAP and non-GAAP financial measures. Our reported results include GAAP growth rates and non-GAAP growth rates, including constant currency rates. During this presentation, Adobe's executives will refer to revenue growth in constant currency rates, unless otherwise stated. Non-GAAP reconciliations are available in our earnings release and on Adobe's Investor Relations website.

I will now turn the call over to Shantanu.

Shantanu Narayen

Chair & Chief Executive Officer, Adobe Inc.

Thanks, Doug. Good afternoon, everyone, and thank you for joining us. Adobe reported a strong third quarter, achieving $6.76 billion in revenue, representing 12% year-over-year growth. GAAP earnings per share for the quarter was $4.62, representing 11% year-over-year growth, and non-GAAP earnings per share was $6.13, representing 15% year-over-year growth.

Over the decades, Adobe's evolving mission from changing the world through digital experiences to now empowering everyone to create has always focused on creating new market categories to serve an expanding set of customers. It has enabled us to build industry-leading platforms and products in the areas of creativity, productivity and customer experience, setting a high bar for innovation and category transformation.

Adobe will leverage AI to increase the reach, value and impact we will deliver to customers to drive our next decade of growth. AI enables us to democratize access to every creative discipline for everyone from the casual creator to the most seasoned creative professional. It enables us to meet the growing creativity and productivity needs of consumers and business professionals who are looking to stand out and communicate more effectively. With AI, Adobe uniquely empowers enterprises to deliver and orchestrate personalized customer experiences.

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As I reflect on 29 years at Adobe, I'm most proud of the innovative products and platforms we've delivered to customers, including Acrobat and PDF, Adobe Experience Manager, Adobe Experience Platform, InDesign, Photoshop and Premiere, and, more recently, Express and Firefly. It's incredible that these innovations are now used by over 1 billion monthly active users across all businesses, a number that grew greater than 20% year-over-year in Q3, with the creative freemium MAU crossing 100 million and growing greater than 70% year-over-year.

We created the Digital Marketing category and are the leading provider of Customer Experience Orchestration solutions, delivering over 1 trillion experiences per year for enterprise customers. We're just beginning to capitalize on the massive AI opportunity across creativity, productivity and customer experiences with AI-first ending ARR now exceeding $650 million and growing more than 150% year-over-year. During this time, Adobe's annual revenue has grown from less than $1 billion to over $26 billion.

I'm delighted that Anil Chakravarthy will become Adobe's next President and Chief Executive Officer and join the Board of Directors effective December 1. I would also like to thank David Wadhwani for over a decade of partnership, leadership and passion for our creative community.

I'm committed to working closely with Anil to ensure a smooth transition and support Adobe's ongoing growth and transformation as Executive Chair. As an experienced transformation leader with strong values, integrity, deep knowledge of our business and passion for products to solve customer needs, Anil is the right person to chart Adobe's growth in this agentic era. He has a proven record of building and delivering category-defining products that serve our broad range of customers, and I have every confidence that Adobe's best days are ahead of us.

I'll now turn it over to Anil.

Anil Chakravarthy

President-Customer Experience Orchestration Business, Adobe Inc.

Thank you, Shantanu. Hello, everyone. I am deeply honored to lead Adobe at this pivotal moment. I'm excited by the opportunity to drive Adobe's growth and leadership across creativity, productivity and customer experiences in the era of agentic software. Adobe's proven track record of empowering individuals and organizations to express their ideas, tell their stories and make an impact continues to inspire us and fuel our commitment to customers.

Thanks to Shantanu's exceptional leadership in transforming Adobe's product portfolio and business model over the decades, we are well positioned to capitalize on the massive opportunities ahead. I look forward to working closely with our employees and Shantanu to continue serving our customers and transforming Adobe in the era of agentic AI.

Turning to Q3 results, subscription revenue for Business Professionals & Consumers was $1.91 billion, growing 15% year-over-year. Our strategy for Business Professionals & Consumers is to deliver AI-powered applications that transform how users comprehend, create and share content. We are delivering new conversational and agentic interfaces in Adobe Reader, Acrobat and Express through an integrated freemium experience.

Our differentiation is grounded in a deep understanding of the PDF format and three decades of document expertise to transform Acrobat from the world's leading PDF tool into a comprehensive document productivity platform powered by AI. Today, people open more than 400 billion PDFs with Acrobat every year to read, edit and create content. By integrating AI deeply into our products, we are helping customers realize the value of AI faster, more accurately, securely and cost efficiently.

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We are meeting users wherever they work and expanding our reach across the digital ecosystem by extending Acrobat's capabilities to major platforms, including ChatGPT, Chrome, Claude, Microsoft Edge and WhatsApp. This approach to innovation positions Adobe to drive deeper user engagement, unlock new enterprise opportunities, and sustain our leadership as the trusted platform for digital documents in the age of AI.

Yesterday, we announced significant advances in Acrobat, powered by the Adobe Productivity Agent, that help people and teams understand the information in their documents faster, create polished work more easily and access trusted knowledge at scale. Acrobat now turns complex documents into visually-rich interactive reports and summary slides, as well as audio formats like personal podcasts, enabling users to quickly absorb key insights.

New features like Knowledge Base and Analyzer empower teams to ask questions across massive document collections and surface structured insights from thousands of files. This unlocks the value of existing organizational knowledge, driving smarter, faster decision-making at scale, all with enterprise-grade governance, security, trust and compliance.

With a focus on winning the next generation of business professionals, Student Spaces in Acrobat is now available globally, targeting the higher education market and empowering students to generate flashcards, quizzes and study guides to help them better understand and master their curriculum.

Additional Business Professional & Consumer highlights include: Business Professional & Consumer MAU grew over 25% year-over-year to over 900 million; Acrobat AI Assistant MAU doubled quarter-over-quarter; strong enterprise adoption of Acrobat AI capabilities among ETLA customers; notable customer wins this quarter include Amazon, Deutsche Post DHL, Honeywell, JISC, Renault and The U.S. Department of Energy Los Alamos National Laboratory.

In Q3, subscription revenue for Creative & Marketing Professionals was $4.65 billion, growing 12% year-over-year. Our strategy for Creators & Creative Professionals is to empower everyone to bring their creative visions to life across any media type and surface. With Firefly, we're making creativity more accessible, intuitive and efficient for creators of every experience level. For Creative Professionals, we are delivering the most comprehensive AI-driven power and precision applications through Creative Cloud across every stage of the creative process.

Our differentiation is rooted in our deep domain expertise across media types, including imaging, design, video, photography, illustration, animation and 3D, and complemented by our depth of intelligence across creative workflows. With Firefly and Creative Cloud, Adobe is reinventing creative software with agentic AI to deliver immediate, personalized value, meeting users where they are, with tools and agents that adapt to their needs. Adobe remains committed to delivering intuitive, context-aware experiences that honor creative craft, accelerate creative velocity and ensure that the next generation of creators can thrive in an ever-changing world.

Adobe's strategy is to offer customers choice as well as intelligent routing to use the best models for their needs, fully integrated in Adobe applications, eliminating the friction of switching between workflows and platforms. The Adobe Creative Agent empowers customers by handling the orchestration and execution of complex, repetitive creative workflows. We expanded the Adobe Creative Agent to additional Creative Cloud flagship apps, including Photoshop and Premiere, extending conversational, agentic workflows deeper into our professional applications.

We also introduced several innovations in Photoshop, giving professionals more choice and control at every stage of the creative process. This includes a new AI Assisted Editor, now in beta, offering customers the option of

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using a dedicated interface and natural-language [ph] prompt (00:11:53) bar, alongside our generative tools powered by leading AI models.

Adobe Firefly is the all-in-one creative AI studio for the next generation of creators. In Q3, we added native generation of music, speech and sound effects, bringing commercially safe AI audio to creative workflows. We released new creative skills and tools like Create Storyboard and Create Brand Kit, purpose-built for social creators and solopreneurs, along with additional enhancements that help make Firefly AI Assistant more personalized and context-aware over time.

We announced our agreement to acquire Topaz Labs, which adds state-of-the-art AI enhancement models in Adobe Firefly, Firefly Services and Creative Cloud apps, providing creators, designers, video professionals, photographers and enterprises the tools to achieve exceptional quality across every format and workflow.

With over 1 million users, Topaz Labs and its Emmy Award-winning AI technology will be integrated across Adobe's creative AI portfolio, enabling customers to enhance footage, restore and remaster archival content, and blend AI-generated and traditionally captured content into seamless final productions. We expect the transaction to close in Q4, subject to regulatory approvals and other customary closing conditions.

Firefly Enterprise, spanning Firefly Services, Adobe Firefly Foundry and Adobe Brand Intelligence, helps the world's largest brands industrialize content production with brand safe custom models. In July, we expanded Firefly Enterprise with Adobe Firefly Graph Enterprise Edition and Firefly Creative Production Enterprise Edition, giving businesses reusable, node-based creative workflows and mass-scale production capabilities, alongside a new simulate feature in Adobe Brand Intelligence that predicts campaign performance before content goes live.

We announced that Disney Imagineering is integrating Firefly Foundry into its theme park design toolkit, bringing Disney stories, characters and experiences to life in parks faster than ever. We are aggressively executing our global strategy to attract millions of next-generation creators to Adobe. In conjunction with Saudi Arabia's emphasis on digital literacy and AI, we expanded our partnership with the Ministry of Communications and Information Technology and HUMAIN to enable the nation's 27 million citizens and residents with Adobe Firefly and Express, while supporting the development of a new image generation model tuned to Saudi culture.

Additional Creators & Creative Professionals highlights include: creative freemium MAU now surpassing 100 million and growing over 70% year-over-year; intensity of AI usage continues with credit consumption accelerating quarter-on-quarter, across Creative Cloud and the Firefly App; Firefly ending ARR across Firefly App and Firefly credit packs grew 40% quarter-over-quarter; enterprise wins this quarter include Academy Sports, Disney, Jet2, Perficient, Premier League, Publicis, Tennis Australia and T-Mobile.

I'm excited to host Adobe MAX, the world's largest creativity conference, in November in Miami Beach, where we will welcome more than 10,000 members of our global community and engage with hundreds of thousands more online. This year, we'll showcase breakthrough innovations across Creative Cloud, new capabilities in Firefly, and connected workflows for Firefly Enterprise, all powered by agentic AI. MAX is always a celebration of the community's creativity, and we look forward to sharing how Adobe magic is transforming creative workflows and unlocking new possibilities.

Turning to Marketing Professionals, our strategy is to deliver Adobe CX Enterprise, the agentic system of record for Customer Experience Orchestration, serving the entire customer lifecycle from identifying and engaging prospects to driving conversion and developing lasting loyalty. Adobe CX Enterprise is focused on three critical

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solutions, Adobe Experience Platform and native apps for customer engagement; Adobe GenStudio for content supply chain; and Adobe Experience Manager and agentic web apps for brand visibility.

Over 20,000 global enterprises rely on Adobe, and we are helping them transform their customer experience for the era of agentic AI. Through Adobe CX Enterprise, we uniquely bring together creativity, marketing and agentic AI, simplifying and transforming how enterprises manage the customer lifecycle. We deliver this value through proprietary CX intelligence, agentic orchestration, governed workflow execution, open ecosystem connectivity and enterprise-grade trust, all of which we've built over several years, providing our customers a practical path from the apps they use today to an end-to-end agentic AI system.

In Q3, we delivered the first unified brand visibility solution, bringing together Semrush's AI visibility intelligence with Adobe's agentic content optimization capabilities, grounded in a deep understanding of business and brand context. Adobe Brand Visibility is a comprehensive solution for generative engine optimization that combines the industry-leading capabilities of Adobe LLM Optimizer with Semrush's AI Optimization. We're seeing tremendous customer interest in tapping our database of nearly 300 million real-world AI search prompts to understand how their brands are showing up across leading platforms such as ChatGPT, Google AI Mode, Microsoft Copilot and Perplexity AI.

At the Cannes Lions International Festival of Creativity in June, we introduced a major expansion of Adobe GenStudio to help brands meet customers wherever they are in the moment of purchase, in a stream or in a scroll. GenStudio for Commerce Media Networks gives retailers a way to attract advertising partners with self-serve, on-brand creative built directly from product listings and category context. We also expanded Adobe Brand Intelligence capabilities so marketing teams can preview how content will resonate with audiences before it ever goes live. This is what an agentic content supply chain demands, at the speed our customers need.

We are seeing tremendous customer interest in CX Enterprise Coworker, the specialized AI agent in CX Enterprise that autonomously executes complex marketing and customer engagement workflows. CX Enterprise Coworker, which became generally available in June, meets marketers where they are, embedding agentic intelligence directly into the engagement lifecycle, offering choice and control while enabling teams to act faster, scale personalization, and continuously optimize outcomes.

CX Enterprise Coworker synthesizes insights from Adobe and third-party applications, while coordinating AI agents and workflows across analytics, content creation and journey orchestration. Early customer interest is strong, with over 1,700 customers and early adopters of CX Enterprise Coworker.

Additional Marketing Professionals highlights included: ending ARR growth of over 20% year-over-year for each of AEM and agentic web apps, Adobe GenStudio and AEP and apps; continued strength in subscription services, driven by Forward Deployed Engineering and strategic value realization engagements with customers; Q3 industry analyst recognition being named the top leader in two Forrester Waves, including Customer Data Platforms for B2C and Experience Optimization Solutions, as well as two IDC Marketscapes for Worldwide AI-Enabled Customer Data Platforms for B2B users and B2C users; global enterprise customer wins in Q3 included Academy Sports, Alpine Racing, BNP Paribas, Humana, IKEA, Jet2, Marriott, MSC Cruises, Publicis, Royal Bank of Canada, Vanguard and Wells Fargo.

Looking ahead, Adobe is well positioned to be the global leader in agentic software for creativity, productivity and customer experience. We are building on tremendous assets, deep domain expertise, proven track record of product innovation, broad community of customers spanning individuals to small businesses to the largest enterprises in the world, diversified global routes to market, values-driven culture, highly motivated employees, a

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trusted and well-recognized brand, and the financial strength to invest for the future. I am incredibly excited by the opportunity in front of us and I look forward to sharing more updates.

I'll now pass it to Steve.

Steve Day

Interim Chief Financial Officer & Senior Vice President, Finance, Technology, Security and Operations, Adobe Inc.

Thanks, Anil. Today, I will start by summarizing Adobe's performance in Q3 FY 2026, highlighting growth drivers across our customer groups, and I'll finish with our financial targets. In Q3, Adobe achieved record revenue of $6.76 billion, growing 13% year-over-year as reported and 12% in constant currency. Diluted earnings per share was $4.62 on a GAAP basis and $6.13 on a non-GAAP basis.

Q3 financial highlights included: total Adobe ending ARR of $27.5 billion, growing 11.2% year-over-year; total customer group subscription revenue of $6.56 billion, growing 14% year-over-year, or 13% in constant currency; RPO of $22.16 billion exiting the quarter growing 8% year-over-year and cRPO growing 9% year-over-year, both as reported and in constant currency; cash flows from operations were a Q3 record at $2.52 billion, and ending cash and short-term investments exiting Q3 were $5.64 billion; and repurchasing approximately 9.5 million shares of our stock during the quarter. Exiting Q3, we have fully utilized our March 2024 authorization and have approximately $24.55 billion remaining under our April 2026 authorization.

Business Professionals & Consumers subscription revenue was $1.91 billion, increasing 16% year-over-year as reported, or 15% in constant currency. Q3 growth drivers for Business Professionals & Consumers included: double-digit ending ARR year-over-year growth across all geographies; Acrobat plus Express MAU surpassed 900 million, growing more than 25% year-over-year; Acrobat AI Assistant MAU doubled quarter-over-quarter; and strong performance in SMB across inside sales and the reseller channel.

Creative & Marketing Professionals subscription revenue was $4.65 billion, increasing 13% year-over-year, or 12% in constant currency. Q3 growth drivers for Creative & Marketing Professionals included: continued strength in Creative Cloud across our Teams and Enterprise offerings; Creative freemium MAU, which includes Firefly and Express and web and mobile versions of Premiere, Photoshop and Lightroom, crossed 100 million, growing over 70% year-over-year; Firefly ending ARR across Firefly Apps and Firefly credit packs grew 40% quarter-over-quarter; customer growth in Firefly Enterprise with accelerating usage quarter-over-quarter; ending ARR growth of greater than 20% year-over-year for each of Adobe Experience Manager and agentic web apps, Adobe GenStudio, and Adobe Experience Platform and apps. Doubled the number of paid customers quarter-on-quarter for brand visibility solutions, helping brands optimize visibility across traditional and generative search; and continued strength in retention across the enterprise customer base.

Now, let me turn to our financial targets, which assume current macroeconomic conditions. For Q4 FY 2026, we are targeting total Adobe revenue of $6.8 billion to $6.85 billion; Business Professionals & Consumers subscription revenue of $1.93 billion to $1.95 billion; Creative & Marketing Professionals subscription revenue of $4.665 billion to $4.695 billion; GAAP EPS of $4.65 to $4.70; and non-GAAP EPS of $6.30 to $6.35. For Q4, we assume non-GAAP operating margin of approximately 44%, and GAAP tax rate of approximately 22% and a non-GAAP tax rate of approximately 18%.

Given strong year-to-date performance, we are raising full-year revenue and EPS targets. For FY 2026, we are targeting total Adobe revenue of $26.576 billion to $26.626 billion; Business Professionals & Consumers subscription revenue of $7.47 billion to $7.49 billion; Creative & Marketing Professionals subscription revenue $18.242 billion to $18.272 billion; total Adobe ending ARR book of business growth of 10.2% year-over-year

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compared to our FY 2026 beginning book of business of $25.66 billion; GAAP EPS of $18.12 to $18.17; and non-GAAP EPS of $24.45 to $24.50. Our FY 2026 targets assume non-GAAP operating margin of approximately 45%, a GAAP tax rate of approximately 22.5% and a non-GAAP tax rate of approximately 18%.

We are encouraged by the progress we are making against our strategy. We are expanding our user base and deepening engagement with existing customers through agentic experiences. With focused execution and disciplined investments, we are driving long-term durable growth.

Now, I'll turn it back to Shantanu.

Shantanu Narayen

Chair & Chief Executive Officer, Adobe Inc.

Thanks, Steve. I want to express my deep appreciation to all our employees, customers, partners and investors for the support that they've provided to Adobe during my tenure. Thank you.

We will now take your questions.

QUESTION AND ANSWER SECTION

Operator: Thank you. [Operator Instructions] The first question comes from Matt Swanson with RBC Capital Markets.

Matthew Swanson

Analyst, RBC Capital Markets LLC

Q

Great. Thank you for taking my questions. Anil, in your early comments in the prepared remarks as well as the press releases since the announcement, it feels like agentic has been a very pervasive theme across all of this. Could you just talk about how big of a factor this is going to be in your strategy going forward, and just kind of expand a little bit on what that long term path looks like for agentic and what the end state could end up being?

Anil Chakravarthy

President-Customer Experience Orchestration Business, Adobe Inc.

A

Thanks, Matt. Yeah. As I talked about in my remarks, I see immense opportunity for Adobe to be the leader in agentic software for creativity, productivity and customer experience, just like we've been the leader in SaaS for those categories. Overall, across the industry, I do believe that every SaaS company will be going through the transformation to agentic software, just like the software companies went from on-prem to SaaS many years ago, that Adobe executed very successfully.

So, when I talk to customers across our categories, what I hear is, when they look for agentic software, what they mean by that is they're looking for, one, a product architecture, the product architecture evolving so that people can use the user interface of their choice, whether it's conversational or a traditional interface, that could be a ChatGPT or a Claude, or Copilot, along with the functionality they get from Adobe, and we are making that possible. As you've seen our announcements across creativity, across productivity, as well as the CX announcements like the Adobe Marketing Agent, we are making that possible through other interfaces as well as our own, like we're doing with our apps as well.

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Second, they're looking for model flexibility. They're looking to make sure that they can have access to the best models available, and that we, as the provider of the agentic software, are matching the best model available to the best task and making it easy for users. And that's something that we are doing extremely well with the Adobe Creativity Agent we talked about and the Adobe Productivity Agent as well. And then they're looking to make sure that the apps are using their enterprise data and context so that there's no hallucination, that they get usable results and they get predictability out of the use of AI.

And that's something that we are doing really well, with, for example, the CX Enterprise Coworker we talked about, because that's built on top of the Adobe Experience Platform, where we serve over 1 trillion experiences every year. And then they're looking for value. They're looking to make sure that the provider of agentic software is helping them realize the full value of this software, bringing it all together across all of the complexity of AI and software, and that's what we're doing with the growth we're seeing across our Forward Deployed Engineering and our value realization teams. So, that's how I see it evolving. And I think we see – I see a massive opportunity for us to be the leader, the agentic software leader in creativity, productivity, and customer experience.

Matthew Swanson
Analyst, RBC Capital Markets LLC
Q

Thank you.

Operator: And the next question comes from Saket Kalia with Barclays.

Saket Kalia
Analyst, Barclays Capital, Inc.
Q

Okay. Great. Hey guys. Thanks for taking my questions here. Congrats, Anil. Shantanu, just want to tip my cap to you on 29 years of leadership at Adobe. Anil, maybe the question here is for you. I think one of the questions that was asked when the announcement was made on your CEO transition was whether your background in digital experience is a statement on where the board thinks about the future of Adobe's growth opportunity. I just wanted to give you an opportunity to respond to that and tell us how you think about that.

Shantanu Narayen
Chair & Chief Executive Officer, Adobe Inc.
A

I'll let him add, Saket, but let me just say a couple of things on behalf of the board. I mean, the first is, I'm really thrilled that we were able to have somebody internal who understood the company. We had two great internal candidates, so that was, I think, important for the board. Certainly, Anil is going to own the entire company strategy and put his stamp on it.

But I think it's important to remember that when we were looking for the next leader that it was somebody who would embrace everything that the company had in terms of the opportunity and then figure out how they wanted to transform it moving forward. But with that as sort of context, I'll let Anil add specifically as it relates to the enterprise. And maybe the one last thing I'll say is, I think we both agree, Anil and I, that as it relates to how software will be sold, the individuals and making sure that we delight individuals is going to be even more important moving forward. Anil?

Anil Chakravarthy
President-Customer Experience Orchestration Business, Adobe Inc.
A

Yeah. Well, thanks, Saket. Appreciate it. And the first thing I was going to say is, look, when I joined in January 2020, and by the end of that year, Shantanu asked me to take on actually our enterprise field operations across

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the company. And in that, starting from that, me and my team, we represented all of Adobe with our customers. So, when you look at an example that we showed, like Disney, for example, they think of us as one Adobe and that's been important.

Well, I have had the opportunity to really represent all of Adobe across creativity, productivity, and customer experience with all of our enterprise customers. And I see that opportunity, exactly as Shantanu said, across the three product categories and across the entire range of customers, from individuals to the hundreds of thousands of small businesses that we have, to the 20,000-plus enterprise customers, I see massive opportunity across all of our base.

Saket Kalia
Analyst, Barclays Capital, Inc.

Q

Great to hear. Congrats to both of you.

Operator: And the next question comes from Jay Vleeschhouwer with Griffin Securities.

Jay Vleeschhouwer
Analyst, Griffin Securities, Inc.

Q

Yeah. Thank you. Good evening. Anil, let me follow-up a bit on Saket's question. When you look at over the next number of years, what do you think are Adobe's most consequential strategic, technical, financial, or competitive challenges or executables? And that's a very broad question, but I would very much like to get your thinking on that.

And then a quick one for Steve, I'm a little concerned about your RPO number. The single-digit growth year-over-year was the first single-digit growth since fiscal 2023, early fiscal 2023, and down sequentially. Was there anything unusual about the consumption of RPO coming out of Q2, or maybe just talk about some of the details there? Thank you.

Anil Chakravarthy
President-Customer Experience Orchestration Business, Adobe Inc.

A

Well, thank you, Jay. First, looking across our categories, if you look at, for example, our Business Professionals & Consumers, we're obviously building on a lot of assets. We just crossed over 1 billion in monthly active users. We have the decades of domain expertise in PDF. And so, we are building on a lot of different assets that we have built over time. And so, when you look at the future, obviously, the focus now is on how do we bring all of those assets and build the new capabilities required for the world of agentic software.

And we see that same thing playing across all three of our major category areas, whether it's the productivity area that I just talked about, in the creative world, for example, bringing together the power of these new models and making sure that we deliver the value of AI to the user as fast as we can, securely, accurately, and cost-efficiently, and making that – that's what our users and customers are looking for. And so, being able to bring all of that together is really where our focus is across all of our categories.

Steve Day
Interim Chief Financial Officer & Senior Vice President, Finance, Technology, Security and Operations, Adobe Inc.

A

Yeah, Jay. And as it relates to the RPO, you're right. Yes, RPO grew 8% year-over-year, the cRPO 9%, and that reflects the continued execution against our strategic initiatives. The growth is consistent with our ARR trends, I would say. It does reflect our focus to accelerate new user acquisition through the freemium business model. But

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if you take a step back and look at these trends over the course of a typical year, both RPO and cRPO step up in our fourth quarter and then remain fairly flat over the next three quarters, and this year is no different to prior years in that shape.

Jay Vleeschhouwer
Analyst, Griffin Securities, Inc.

Q

Okay. Thank you.

Operator: And we'll go to Samik Chatterjee with JPMorgan.

Brian Hyska
Analyst, JPMorgan Securities LLC

Q

This is Brian Hyska on for Samik. Thank you for taking my question. Your Q4 guidance implies only modest sequential revenue growth in Creative and Marketing Professionals. Could you walk us through the assumptions driving that outlook? Thanks.

Anil Chakravarthy
President-Customer Experience Orchestration Business, Adobe Inc.

A

On Q4, I think, if you start turning to Q4, if you look at – let me go unpack that Q4 for you. First of all, I wanted to say that we reiterated our full-year guide of 10.2% growth for the full year in terms of ending ARR. Now, if I unpack that across the different audiences, so in terms of our – the Business Professionals & Consumers, we are excited by the innovations that we just announced yesterday in Acrobat and Express, and that is going to give us a tailwind for our growth in Q4 and that will ultimately obviously translate into revenue going into future quarters.

With Firefly and Creative Cloud, we have incredible innovation, breakthrough releases planned in the run-up to MAX, whether it's with Creators or with Creative Professionals. And so, we are going to see, that gives us confidence for our Creative Professionals – for our Creative Professionals and Creatives category. And then in Customer Experience, we're starting with a strong pipeline. We will get the benefit of seasonality, as I mentioned, and the innovations we've made. So, that's what gives us the confidence for Q4. And I don't know if you wanted to add on to that, Steve, in terms of the specific revenue comment?

Steve Day
Interim Chief Financial Officer & Senior Vice President, Finance, Technology, Security and Operations, Adobe Inc.

A

Yeah. I mean, I think in terms of the revenue guide that we've put out there, I think you'll see that it's a raise that we've put forward for the Q4, rolling that through against the first three quarters of the year and press that against the June guide that we put out. It's a raise across C&P subs, BP&C subs, as well as the overall company, raising around $50 million at the midpoint. So, yeah, we take our guide seriously, and we're pleased to put forth a raise in this quarter.

Operator: And our next question will come from Brad Zelnick with Deutsche Bank.

Brad Zelnick
Analyst, Deutsche Bank Securities, Inc.

Q

Great. Thank you so much. And I'll echo my congrats to Shantanu on an epic run, and Anil on the exciting journey ahead. For my question, Anil, it's great to hear Firefly and credit pack ARR continues to grow well and that credit

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consumption is accelerating. Can you talk about what's driving the acceleration there? Is there broad usage or certain types of generations that are really behind it, and how do you think that evolves from here?

Anil Chakravarthy
President-Customer Experience Orchestration Business, Adobe Inc.

A

Yeah. I think just going back to what we talked about in how we're driving our freemium strategy for growth, we're, first, focused on making sure that we are acquiring new users. And then as we talked about [ph] that, that (00:39:52) has performed very well. We talked about it on the June earnings call, and creative freemium MAU we saw has grown to over 100 million, growing over 70% year-over-year. So, that's bringing people into the funnel. That's when we still focus on increasing their intensity of AI usage and increasing their engagement with the products. And that engagement is what is starting to translate into ARR, Brad, with the Firefly ending ARR, the apps and the credit packs showing the 40% quarter-over-quarter growth. It's really that intensity of usage that's leading to that growth.

Shantanu Narayen
Chair & Chief Executive Officer, Adobe Inc.

A

The other thing maybe I'll add is, I mean as it relates to specifically what's driving it, if you look at the amount of innovation that's going into Firefly, it's magical, and video in particular, you're seeing a lot of usage of video. And so that certainly helps across that. And within Creative Cloud as well, I know we talk a lot about the AI-first revenue. If you think about the AI-influenced revenue and what's being driven by Creative Cloud, all of the core desktop applications, the credit consumption there also is very robust, which just reflects how fundamental AI has become to the usage of those products. So, those are two other things I would add.

Brad Zelnick
Analyst, Deutsche Bank Securities, Inc.

Q

Great. Thank you so much, guys.

Operator: And we'll go to Alex Zukin with Wolfe Research.

Ivan Radojicic
Analyst, Wolfe Research LLC

Q

Hey, guys. This is Ivan on the line for Alex. Thank you for taking my question. First of all, Anil, congrats on the role. And Shantanu, of course, on the amazing run. Maybe going back to last quarter, when you guys guided, you called out that you expect headwinds from doubling down on freemium strategy and then deferring the pricing initiatives. So, to the extent you can, can you provide a little more color in terms of how much of the headwind came from each of these two? And then as a quick follow-up, like, are there any updated thoughts in terms of when those deferred Creative Cloud pricing optimizations will resume? Thank you.

Shantanu Narayen
Chair & Chief Executive Officer, Adobe Inc.

A

Yeah. I think the two things we said, and then I'll have Anil add. I think the two things that we said that were really important for us was, one, within the company, let's make sure we have an absolutely singular focus and align the company on what was important. And I always like to say, I like to be impatient for something, and we are incredibly impatient to drive a whole bunch of users, which is what you saw in the MAU. I mean, the MAU growth and how we're inspecting MAU and driving MAU growth, we believe, is going to be fundamental to the future growth of the company.

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And so, the two things that we had said at that point was, let's get a singular focus. The other thing I would say is that we're actually in a incredibly fortunate position now. If you look at the segmentation of our products, we certainly have tremendous value that we deliver, depending on which segment of the population is using it.

I think to your point, within the Creative Cloud, we can continue to always find ways to deliver more value. But I really think the company has performed really well in this singular focus of let's deliver a lot of innovation around Firefly and the platform for Firefly, let's make sure we focus on MAU. And so, that was really the driver of it.

If you look at BP&C, we had good growth on BP&C. And so, this is within the Creative, establishing Firefly, I would say. And I'm actually really happy that we didn't focus on the pricing actions, because that while it may have provided some short-term relief, would not be as critical as continuing to drive new user adoption. So, that's how I'd answer that question.

Operator: And our next question will come from Kirk Materne with Evercore ISI.

Vinod Srinivasaraghavan
Analyst, Evercore Group LLC

Q

Hi. This is Vinod on for Kirk. Thanks for taking my question. So, net new ARR was down 36%, 37% year-over-year. And I just wanted to get a sense of some of the drivers. Is it really more about seat volume softness, lapping pricing, or is it really just the freemium funnel that you've talked about and you're doing intentionally that's kind of impacting that? Thank you.

Anil Chakravarthy
President-Customer Experience Orchestration Business, Adobe Inc.

A

Yeah. I mean, just as we, as Shantanu just described and we talked about in June, our strategy is to drive both and balance across acquiring these new customers as well as growing ARR. So, one of the things we've obviously done is, for example, taken a portion of our traffic to make sure that we are sending them to the right place so we can acquire customers through the freemium funnel. And then we engage them and then increase the intensity of their use, and obviously, at the right time, we will calibrate when we convert them into ARR. So, that's the approach we have taken to make sure that we're really tapping into this large base of next generation creators that we can bring into the Adobe family, and that's what is driving the performance that you see.

Vinod Srinivasaraghavan
Analyst, Evercore Group LLC

Q

Okay. Thank you. And did you guys quantify the Semrush contribution this quarter?

Steve Day
Interim Chief Financial Officer & Senior Vice President, Finance, Technology, Security and Operations, Adobe Inc.

A

Yeah. I mean, I think when we gave you a view of that back in the call last quarter, the rough size of how much Semrush was adding to the book of business.

Shantanu Narayen
Chair & Chief Executive Officer, Adobe Inc.

A

I think you really have to think about it as directionally, what we've done with Semrush is to really integrate that into our combined offerings. And so, I think you understood what the book of business was. We did it. But I think

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moving forward, the real selling motion is all around how do we combine SEO and GEO with all of our web content management, as well as those solutions.

So, I think increasingly and Anil can certainly add, the sales motion is all around the combined new offerings as it relates to what we are doing around brand visibility, what we are doing around content supply, because those are the ones, and I think we talked about how all of those are growing north of 20%, the must-wins. And so, that's how we are going to market with those solutions.

Anil Chakravarthy
President-Customer Experience Orchestration Business, Adobe Inc.

A

Yeah, exactly. I think the real focus is bringing the – we've already brought it together, as we announced at the Cannes Lions conference of what Semrush had with their AI optimization technology with what Adobe already had. That's what we released as Adobe brand visibility has had a great reception from customers. In fact, as Steve pointed out, doubled the number of paying customers in Adobe brand visibility quarter-over-quarter. So, we're seeing terrific customer interest there.

Vinod Srinivasaraghavan
Analyst, Evercore Group LLC

Q

Thank you.

Operator: And we'll take a question from Billy Fitzsimmons with Piper Sandler.

Billy Fitzsimmons
Analyst, Piper Sandler & Co.

Q

Perfect. Thank you for taking the question. I guess one question we get a lot is you kind of meet customers where they are with or how they want to consume in terms of how you monetize AI across either Creative Cloud, Acrobat, your enterprise products, and that's through bundled credits, credit packs, premium tiers, per seat pricing. There's also usage-based contracts. Over time, which pricing model do you expect to become the primary driver of AI revenue?

Anil Chakravarthy
President-Customer Experience Orchestration Business, Adobe Inc.

A

Yeah. Our first focus exactly is to make sure that we get – we are bringing in as many customers as we can into our funnel and to the Adobe family. And that's what you're seeing with the freemium strategy and all the focus on customer acquisition. After that, it really depends on what exactly they're doing. What are they trying to get done? What is their skill level? What they're doing it in the context of? And so that can vary based on whether they are individuals or enterprise customers and so on.

So, it really then starts to focus on what they're actually doing with it. And so, we are happy to work with, say, for example, something like Microsoft Copilot in the enterprise, [ph] to (00:47:53) ChatGPT for consumers and so on, and making sure that they are getting value and driving up that intensity of usage and the engagement.

And then beyond that, depending on the product area, it will – once we have the value, we can map it to the monetization that Shantanu talked about, which helps us with better segmentation, understanding what the segments are and how they're getting value. And so, we have a wide variety of ways, as you pointed out, to monetize that. And we're going to be applying that both based on the context of the customer and the context of what they're doing.

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Billy Fitzsimmons
Analyst, Piper Sandler & Co.

Q

And then a quick follow-up, if I can get in, on the Topaz Labs deal, what strategic gaps does Topaz help fill in the product portfolio that maybe couldn't have been addressed with internal development or partnerships, understanding the deal hasn't closed yet? How should we just think about how those Topaz capabilities could be folded into existing solutions?

Anil Chakravarthy
President-Customer Experience Orchestration Business, Adobe Inc.

A

Yeah. Topaz really was the [indiscernible] (00:48:51) technology for us in terms of AI enhancements across imaging, video. And so, we've actually – a number of our customers have been using our technology along with Topaz and so we've had a lot of great feedback on them from our customers. So, we believe that they'll bring a great natural adjacency and fit right into what we have with Creative Cloud, with Firefly, with Firefly Enterprise. And so we see – we're excited about closing that in Q4. That's what we are anticipating. And I think it will fit right in into what we're doing, and we're excited to talk more about it at MAX coming up soon.

Operator: And we'll take a question from Brent Thill with Jefferies.

Brent Thill
Analyst, Jefferies LLC

Q

Thanks. Anil, congrats on the role and, Shantanu, been great being part of the story, watching it for as long as we have and the success you've had. Anil, just as you think about, I know it's going to take time to formulate probably your strategies and your top priorities, but maybe if you have a couple of top priorities as you make this transition, how would you just characterize the two most important things for you over the next year?

Anil Chakravarthy
President-Customer Experience Orchestration Business, Adobe Inc.

A

Well, thanks, Brent. Appreciate it. It's great that, I have until December 1 to work closely with Shantanu as – for the transition. First focus is obviously on Q4. We remain focused on executing our FY 2026 strategic initiatives and closing out the year strong. That's going to be critical.

MAX is a big deal for us. We've had tremendous innovation in the company, really breakthrough innovations across what we're doing with for creators, what we're doing with creative professionals and then for the enterprise in terms of workflow and automation, for the entire creative process. So, we are really looking forward and this will be my first MAX and I'm looking forward to hosting that.

And then, I'm spending a lot of time with our community, with customers, with our Adobe employees and building the leadership team and putting all of that in place. So, it's going to be a busy fall. So, I'm really looking forward to making all of that happen between now and the new year.

Brent Thill
Analyst, Jefferies LLC

Q

Thanks.

Operator: And we'll take the next question from Tyler Radke with Citi.

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Andrew Girard
Analyst, Citigroup Global Markets, Inc. (Broker)

Q

Oh, great. Thanks for taking the question. This is Andrew Girard on for Tyler. And echoing again all the congrats to Anil and Shantanu. So, Anil, it's good to see the kind of 1 point sequential uptick in Creative & Marketing Professional growth in constant currency here. Anil, I was just hoping to kind of like understand your perspective on Creative's positioning. Where you believe the kind of largest opportunities lie there and kind of any new strategy you're thinking of bringing into Creative as you take on the helm here?

Anil Chakravarthy
President-Customer Experience Orchestration Business, Adobe Inc.

A

Yeah. First of all, thank you. And in terms of creativity, we believe that the market is larger than ever in terms of people across, whether they are individuals or whether they're in small businesses or enterprises around the world where they're really using creativity to express themselves and their ideas. And it's getting more and more important for people to just stand out using creativity. So, we think the market is extremely large.

I think in terms of my own personal view, I do believe that there is real opportunity as the world goes from this world of SaaS to agentic software, with all the new innovation around AI, with all the innovation around models. I think there is opportunity across all of these categories. So, one of the things that I believe in is that the innovation that we have already done, we are going to showcase at MAX, and the innovation you're going to see from us over the next year will really show how what we are doing really brings together everything that AI has and brings that power of AI across all of our customer segments and across all the categories we are in.

Andrew Girard
Analyst, Citigroup Global Markets, Inc. (Broker)

Q

Okay. Yeah, that's great. And just another quick one on kind of the revenue guidance. I see that the kind of the guidance raise on the full year was maybe slightly short of kind of the beat in Q3. So, I just want to kind of understand any dynamics in Q4 that are baked into the model now that might have been incremental to kind of what you all saw last quarter, kind of maybe a greater amount of prudence or greater expected pressure stemming from the premium push, any changes in macro, anything like that?

Steve Day
Interim Chief Financial Officer & Senior Vice President, Finance, Technology, Security and Operations, Adobe Inc.

A

Yeah. Yeah. Yeah. No, nothing changing in the business at all, yeah. So, as you said, we pushed through the beat that we saw in Q3, but there is a slight FX headwind that we're having coming into Q4. And so it's just netting that off. So, otherwise, we feel pretty good about sort of the full year guide, as we said, or the implied guide based on this Q4 guide, and sort of demonstrating a slight raise on the year. So, other than that FX, nothing, nothing from a business perspective.

Andrew Girard
Analyst, Citigroup Global Markets, Inc. (Broker)

Q

Amazing. Thank you.

Operator: And we have a question from Michael Turrin with Wells Fargo Securities.

Michael Turrin
Analyst, Wells Fargo Securities LLC

Q

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Thanks very much. Appreciate you taking the questions. And Shantanu, our congrats as well. For Anil, I know it's early, but just relative to last quarter, it seems you're seeing the user growth on the premium side. I'd be curious just to hear more on how you plan to evaluate trade-offs there and contemplate when you attempt to capture more of the value via price versus letting the premium strategy continue to run from here?

Anil Chakravarthy
President-Customer Experience Orchestration Business, Adobe Inc.
A

Yeah. Thanks, Michael. So, in terms of looking at the entire funnel, obviously, that's one of the things that we have over a decade of experience with what we call the data-driven operating model, as you know, and we are optimizing that for freemium as we attract this next generation of creators and business professionals. So, the goal is, of course, to prove value first. And once they get value, we get a lot of signals about the engagement, about the intensity of AI usage, about whether they're ready to move to – for us to convert them into ARR.

And so, we're constantly calibrating that, whether it's what is the best conversion point, what kind of paywall tuning, for example, would we do. So, there's a number of things that we could do. And obviously, we've done that now for well over a decade. And we're going to continue optimizing that across our customer segments that Shantanu referenced.

Michael Turrin
Analyst, Wells Fargo Securities LLC
Q

And just as a small follow-up, I know you're holding on to the ARR guide, but if we could just revisit the uptick and just any seasonal assumptions from a net new perspective, just maybe remind us what you're expecting and how to think about the uptick and implied net new ARR for 4Q relative to what we saw in 3Q. Thank you.

Steve Day
Interim Chief Financial Officer & Senior Vice President, Finance, Technology, Security and Operations, Adobe Inc.
A

Yeah. I mean, if you remember back on the Q2 call that we gave some shape towards the second half ARR guide, when we reiterated the 10.2% and we said that Q4 would be larger than the Q3 number and that's exactly how it's playing out. So, Q4 is our seasonally strong quarter, a very strong enterprise quarter for us. So, those things are still in effect. We're very pleased with the performance for the businesses so far. We expect to see good contributions across each of the segments that Anil has referenced and deliver that 10.2% guide. Thank you.

Shantanu Narayen
Chair & Chief Executive Officer, Adobe Inc.
A

Maybe if I were to give a little bit more color on that, I mean, the way I would look at that is, again, on the Creative side, just making sure we focus on the combination of MAU and ARR. On the BP&C side, we would expect our traditionally strong Q4. There's a lot of great new innovation that we've delivered. That's a business that continues to perform. And so, making sure that we monetize all of the BP&C is an expectation in Q4.

And perhaps the most important is the traditional enterprise finish that we have with the big pipeline as it relates to both the CXO business as well as what the worldwide field operation is selling into both the creativity as well as the productivity segments within the enterprise. So, that factors into how I think we are guiding Q4 and how you should think about it. Traditional, strong, good pipeline, great innovation in BP&C driving, and continued focus on driving both revenue, but more importantly, MAU as it relates to the creative segment. So that's how I would think about it.

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Shantanu Narayen

Chair & Chief Executive Officer, Adobe Inc.

Given that's the last question, I was really pleased to see so many questions about the go-forward. And we look forward to sharing more updates. Thank you for joining us.

Operator: Well, thank you. And that does conclude today's conference. We do thank you for your participation and have an excellent day.

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